

Ronald W. Beasley, Inc.
INVESTMENT ADVISOR



Investment Report

Annual | December 31, 2008

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Investment Commentary

Our returns for the year were slightly better than the decline in the broad market. Stocks of high quality companies came under extreme selling pressure in the fourth quarter as many institutions and individuals were forced to raise money to pay down debt. In this environment, it is almost pointless to talk about returns. Many highly successful long-term value investors, including Longleaf, fared far worse than the overall market this year. This is not a failure of those investors, but a clear indication of the disconnection between price and value that has occurred.

The unwinding of excessive debt levels has been discussed extensively in my previous reports and elsewhere. I wrote two months ago that the process of healing has begun. It has, and will be a lengthy process. Elimination of trillions of dollars in high risk financial instruments, correction of regulatory failures, and navigation of the economy to a more stable equilibrium is complex. Unemployment and debt defaults have yet to peak. The deleveraging process is global, and has created a global economic slowdown. Unfortunately, market reactions have been fear driven and extreme.

Well-managed companies with sound finances will withstand the difficult economic environment and emerge stronger when the recovery takes place. Wells Fargo just completed its acquisition of Wachovia. Wells' management characterized the deal as the best they had ever seen. Wells has exposure to problematic mortgage markets, but has better credit quality than most banks. The growth of asset securitizations over the past two decades by non-bank financial institutions created a shadow banking system that removed a substantial portion of loan demand from traditional banks. Now that most securitizations are being settled out, well-capitalized banks like Wells should benefit. Wells' advantages are not reflected in its share price, but will be in time, and we are getting paid a substantial dividend while we wait.

Burlington Northern continues to improve efficiencies and is buffered against the effects of a slowing economy as it transports large volumes of coal and agricultural products. Burlington's share price volatility exemplifies the lunacy in the market. The stock is selling at an absurdly low multiple of five times cash flow. Warren Buffett has been steadily buying Burlington stock and now owns over 20% of the company. Sellers have taken the share price to levels well below where Buffett accumulated most of his stake, evidently thinking they are smarter investors than he is. (Hint – they are not.)

Dell has improved its margins and will benefit when the economy improves. Dell stock is selling for less than five times cash flow, and management is aggressively repurchasing shares. Cemex is selling for a similarly low valuation. It has

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renegotiated debt provisions and is temporarily constrained by a slowing construction market, but should prosper when that inevitably reverses. Level 3 Communications is the most cost-efficient provider of bandwidth, which continues to experience growing demand. The company refinanced most of the debt that is coming due in the next two years, and recently assured investors that margins are improving and cash flow is growing. Berkshire Hathaway is finding many attractive investment opportunities and has the cash to take advantage of them. Prices of our energy holdings have declined due to depressed commodity prices and are selling at less than half their intrinsic values, as are most of our holdings.

There are numerous indications that we should be optimistic. Much of the selling that was driven by the need to reduce debt has abated. Sentiment among investors and the media is extremely negative. There is substantially more cash being held by investors than the total value of publically traded stocks. Interest rates are at multi-decade lows. And, perhaps most importantly, accomplished value investors like Warren Buffett, George Soros, and Prem Watsa have been buying aggressively. Several of our holdings are also substantial positions in their investment portfolios.

John Templeton, a highly successful investor for decades, advised buying at the point of maximum pessimism. Warren Buffett says to be greedy when others are fearful. We are seeing the most attractive valuations in over 30 years. It is not necessary to take high risks to pursue attractive returns, as solid companies are extremely undervalued. Our highly capable and experienced fund management partners are also taking advantage of opportunities here.

It is most important to behave rationally in this or any environment. This is a trying time, and patience is needed. I'm looking forward to writing to you that our patience paid off. In the meantime, if you have any spare cash tucked away, this would be a good time to invest. Should you have friends or colleagues who could use my management services, I would appreciate the referral.

Stable markets depend on confidence. Credit markets are showing signs of improvement, and the government is committed to taking all measures necessary to reinvigorate the economy. Confidence will be restored in time. The potential for significant gains is the highest I have seen. I'd be glad to discuss any of our investments or my views on the economy. Please feel free to call.

Sincerely,
Ron Beasley

Portfolio Holdings & Changes

Portfolio Holdings at December 31, 2008

American Express	<i>Financial Services</i>
Arch Coal	<i>Coal Mining</i>
Berkshire Hathaway	<i>Conglomerate</i>
Burlington Northern	<i>Rail Transportation</i>
Cemex	<i>Construction Materials</i>
Chesapeake Energy	<i>Oil & Gas Exploration & Production</i>
ConocoPhillips	<i>Integrated Energy</i>
Deere & Co.	<i>Equipment Manufacturing</i>
Dell	<i>Information Technology</i>
Dodge & Cox Stock Fund	<i>Diversified Value Fund</i>
Kraft Foods	<i>Packaged Foods</i>
Level 3 Communications	<i>Telecommunications Services</i>
Longleaf Partners Fund	<i>Diversified Value Fund</i>
Wells Fargo	<i>Financial Services</i>

Fourth Quarter 2008 Portfolio Changes

New Positions

Arch Coal
Deere & Co.
Dodge & Cox Stock Fund

Positions Eliminated

None

See disclaimer for important disclosures.